



**CITY OF SCOTTSDALE
AUDIT COMMITTEE
Attorney Conference Room
3939 North Drinkwater Blvd.
Scottsdale, AZ 85251
FEBRUARY 11, 2008**

PRESENT: Jim Lane, Committee Member
Wayne Ecton, Committee Member
Ron McCullagh, Committee Member

STAFF: Cheryl Dreska, City Auditor
Kyla Anderson, Audit Associate
Joyce Gilbride, Assistant City Auditor
Richard Chess, Accounting & Tax Audit Director
Lisa Gurtler, Assistant City Auditor
Joanna Munar, Auditor
Susan English, Audit Associate
Laura Fanning, Accounting Manager

CALL TO ORDER/ROLL CALL

Chairman Lane called the Audit Committee meeting to order at 2:32 p.m. Roll call was taken confirming the presence of all Committee Members.

MINUTES - Approval of January 7, 2008 Committee Meeting Minutes

Committee Member Ecton asked if the additional information he requested from staff in the January 7, 2008, meeting was available. City Auditor Cheryl Dreska said she is still working to obtain that information; however, some of it will be addressed in Agenda Item 2 of today's meeting.

Chairman Lane asked if the request for information on the unpaid utility bills is available. Ms. Dreska stated the last communication she received was that the unpaid natural gas was being billed back three years. Accounting and Tax Audit Director Richard Chess indicated they will be billing back for three fiscal years. A decision has not been made whether to bring this to City Council to approve any additional billing. Committee Member Ecton stated this will become part of the discussion as the new agreement is negotiated with the Cultural Council.

Committee Member Ecton made a motion to approve the January 7, 2008, minutes. Committee Member McCullagh seconded the motion. The minutes were approved by a unanimous vote of three (3) to zero (0).

GENERAL BUSINESS

Agenda Item 1 Discussion on draft report - Travel Expenditures Report No. 0706

Auditor Joanna Munar stated this audit was completed in November, with 118 out of 1,048 records being reviewed for the nine-month period of January through September 2007. This sample included 80 Advance Travel Request forms and 38 Post-Travel Request forms. The results showed 94% compliance with established policies and procedures. Seven exceptions were found; however, each of the exceptions were immaterial, therefore, there is no action plan in the report.

Ms. Munar clarified that this is the second consecutive year travel expenditures have been audited. At the conclusion of the November 2006 audit, management put out an action plan to be put into place in early 2007. When the 2007 audit began, those action items were still in the process of being implemented.

Chairman Lane inquired if any of the exceptions found in the 2006 audit were reflected in the exceptions found in the 2007 audit. Ms. Munar explained one of the exceptions was found in both the 2006 and 2007 audits. That item addressed a City-owned vehicle being taken out of state. Accounting Manager Laura Fanning explained the form itself did not contain verbiage related to out-of-state travel. In addition, the updated form will include a requirement to obtain appropriate authorization to take a City-owned vehicle out of state. Ms. Fanning stated this form is currently in draft status, and at this point simply needs to be rolled out to the organization.

Chairman Lane asked if there are any insurance carriers that might be affected by lack of notice regarding a City vehicle being taken out of state. Ms. Fanning stated insurance coverage is impacted in that case. Chairman Lane asked for clarification regarding whether the exception specifically involved an employee wrongfully taking a City-owned vehicle out of state, or if the actual recording of the fact was at issue. Ms. Dreska stated this was a matter of signatures not being documented on the form, not the lack of approval.

Committee Member McCullagh pointed out that the City is self-insured, and asked what insurance would be affected by taking a car out of state without the appropriate signatures. Ms. Dreska explained there is an issue regarding whether or not the insurance would cover a City-owned vehicle traveling into Mexico. The Risk Management Director has requested appropriate insurance be purchased if a City vehicle is traveling into Mexico. Also, Ms. Dreska stated the Police Chief wants to have final authorization to take a police vehicle out of state. In addition, management wants to be able to make the decision regarding the most cost-effective mode of travel.

Committee Member McCullagh stated the umbrella policy covering any amount over the \$2 million self-insured limit might be affected. Chairman Lane stated the City should be

notified when a City vehicle is being taken out of state, regardless of any insurance issues.

Committee Member McCullagh made a motion to approve Travel Expenditures Report No. 0706. Committee Member Ecton seconded the motion, which was approved by a unanimous vote of three (3) to zero (0).

Agenda Item 2 Discussion on the proposed 2008 Audit Plan submitted by the City Auditor for review and recommendation of the Audit Committee

Ms. Dreska proposed a change to the Audit Plan process in consideration of Committee Member McCullagh's observation that there will be new City Council members seated in January 2009. She suggested bringing back an interim plan to the Committee covering March through June, and then bringing a full-year plan covering June 2008 through June 30, 2009. This will allow the open position in the Auditor's office to be filled, and allow for accurate calculation of available hours.

Ms. Dreska requested the discussion on Agenda Items 1 and 2 be merged, since many of these items are related.

Ms. Dreska stated the Housing Assistance and Community Block Grant Program audit is mostly complete. Since there are no significant findings, she suggested this audit be closed and a report issued.

The Auditor's office has issued three reports regarding the Management Services Agreement with the Cultural Council. All of the necessary information for a fourth has been gathered, and the findings can now be included in a final report.

In regard to the WestWorld Financial Operations Report, the work for the revenue component has been completed and management has been provided with draft reports. The Auditor's office is in the process of combining the draft reports in order to eliminate repetitive findings.

Work is complete on the Scottsdale Cares audit and the report has been drafted. There were very insignificant findings in regard to this audit, and there have been meetings with management in Community Services to address these issues.

The work on monitoring expenses associated with the use of outside law firms is complete. This audit is being reassigned due to staff changes; however, unless staff finds something that has been missed, all that remains is writing the report.

The audit on the purchasing card program has been issued. The cash handling audit report has been drafted and is currently with management for comment. The travel expenditures audit is complete and was just released. The RICO Audit is finished and the report is issued, with the exit conference scheduled for Wednesday, February 13, 2008.

Committee Member McCullagh asked for clarification on the status of the WestWorld Financial Operations Report. Ms. Dreska stated management has been given draft

sections of all issues in regard to the audit of revenues. Chairman Lane asked for information regarding the status of the audit on the expenditure side. Ms. Dreska indicated some preliminary work has been completed and there are no issues of concern thus far. Ms. Dreska stated her department would like to audit the Basin Management Fund including the TPC portion separately.

Committee Member McCullagh clarified that four of the ten audits listed on the first page of the report are complete. Ms. Dreska agreed, and stated Item 8 is also complete, pending management comment. Page 2 of the report contains a list of audits on the previous year's Audit Plan that were not brought forward. Some preliminary work has been done on some of these items, and Ms. Dreska will recommend some be removed from the Audit Plan for next year.

Ms. Dreska recommended removing Item 20, process for responding to circumstances that require additional staffing on a temporary basis, since there is currently no Human Resources General Manager. Chairman Lane asked if there was a process or procedure to be audited regarding this item. Ms. Dreska replied there is a Citywide regulation outlining what processes should be followed. Chairman Lane said those processes could be tested for compliance with or without an HR General Manager in place. Ms. Dreska agreed; however, with no manager in place there is no one to set the policy and respond to findings. In addition, there are two other audits scheduled in that area, Workers' Compensation and Unemployment, that are higher priority. Audits of these two items, as well as Compliance With the Health Insurance Portability and Accountability Act (HIPAA), are recommended, and all fall within the purview of the Human Resources Department.

In regard to Workers' Compensation, Committee Member McCullagh asked why a state-run program would require a City audit. Ms. Dreska indicated the City self-insures for Workers' Compensation and there are several items that require compliance. The same applies to Unemployment Compensation. Committee Member McCullagh stated depending on the number of claims, these may not be critical audits. Ms. Dreska indicated she would like to return to the Committee with her suggestions for critical audits to schedule for the March through June 2008 time period. Committee Member Ecton clarified that when an audit begins, the Audit Division can deem it unnecessary to continue based on preliminary findings, which is then brought to the Committee for consideration.

Ms. Dreska explained there were four audits scheduled for the Human Resources Department last year, Items 14, 15, 19, and 20. Of those items, the top priority is the HIPAA audit, and Ms. Dreska suggested doing this audit within the next quarter.

Chairman Lane reiterated that if the Committee accepts the suggestion to schedule a plan for the January to June 2008 time frame to facilitate the move to a fiscal year plan, the items on Page 2 will be considered for that time span. Ms. Dreska agreed, and indicated there has already been some preliminary paper gathering on some of the items, but no conclusions as to whether it is necessary to go forward with the audits.

Ms. Dreska requested the Committee allow her to work through the end of February and bring back in early March an interim plan for March through June, as well as a proposal of some considerations for the next fiscal year. Committee Member Ecton proposed the Committee accept Ms. Dreska's plan in order to facilitate the change to a fiscal year

Audit Plan. Ms. Dreska stated it would be impossible to address all 14 items on Page 2 by the end of June, and she would like to come forward with a prioritized plan that can be realistically completed in that time frame.

Committee Member Ecton moved to allow City Auditor Cheryl Dreska to present an interim plan covering the time frame of March through June 2008 to the Audit Committee for their approval by early March 2008, and move to a fiscal year plan. Committee Member McCullagh seconded the motion, which was approved by a unanimous vote of three (3) to zero (0).

Agenda Item 3 Update by City Auditor on status of current projects

Agenda Items 2 and 3 combined in the discussion above.

PUBLIC COMMENTS – None

COMMITTEE COMMENTS

Chairman Lane asked what policies or procedures are in place with regard to large land transactions, particularly from a legal and operational standpoint. Ms. Dreska indicated she is not aware of any administrative regulations currently in place.

Chairman Lane stated he might ask for this to be agendized at a later date.

ADJOURNMENT

With no further business to discuss, the Audit Committee meeting was adjourned at 3:14 p.m.